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**ANNUAL REVIEW OF TELECOMMUNICATIONS TRADE AGREEMENTS UNDER
SECTION 1377 OF THE 1988 TRADE ACT COMPLETED**

United States Trade Representative Charlene Barshefsky announced today the completion of the annual review of the operation of U.S. telecommunications trade agreements under Section 1377 of the 1988 Omnibus Trade and Competitiveness Act.

“The record demonstrates that we have successfully addressed a number of telecommunications trade agreements in the last twelve months,” said Barshefsky. “Clearly, global telecommunications agreements will break down barriers in telecommunications around the world to an extent we would not have thought possible just a year ago. The 1377 process provides an invaluable benchmark in identifying specific foreign trade barriers that must be addressed on a priority basis.”

This year’s review, which was completed on March 31, 1997, focussed on U.S. concerns about implementation of bilateral agreements with Mexico, Japan, Korea and Taiwan.

Mexico. There were two main issues of concern this year regarding Mexico’s implementation of its NAFTA telecommunications obligations.

The first issue -- Mexico’s establishment of standards for terminal attachment for telecommunications equipment -- was satisfactorily addressed at the February 11, 1997 meeting of the NAFTA Telecommunications Standards Subcommittee (TSSC). Based upon industry input, the TSSC agreed to terminal attachment standards consistent with NAFTA obligations. Mexico will place these standards into effect within approximately ninety days of the February 1997 meeting.

The second issue, which was an area highlighted in last year’s review, was the exchange of test data related to product safety of telecommunications equipment. Mexican and U.S. negotiators completed substantive agreement on a procedure for the exchange of product safety test data of telecommunications equipment which will allow for laboratory-to-laboratory relationships.

Based on the successful outcome of these two negotiations, the review concluded that Mexico was in compliance with its telecommunications obligations.

Japan. The review examined telecommunications procurement by the Japanese Government and NTT.

National Police Agency Procurement

United States concerns related to the National Police Agency (NPA) have been addressed in a way that should ensure fair and equitable access to an important telecommunications procurement by the Japanese government. A general principle in both the WTO Agreement on Government Procurement and the 1994 U.S.-Japan Framework Agreement on Japanese public sector telecommunications procurement (Framework Agreement) is that companies involved in the development of specifications should not be allowed to participate in the procurement if it would result in an unfair competitive advantage over other suppliers. Over several months, the United States raised concerns with the specifications development process that the Japanese National Police Agency (NPA) was using for its next generation VHF mobile communications system. The United States was particularly concerned about the conduct of the specifications development process, and that the selected Japanese firms would develop specifications that U.S. firms would not be able to meet. The U.S. believed that all interested firms should be given a full and fair opportunity to participate in the resulting procurement.

In addition, the United States asserted that the NPA's reliance on a public order and safety exception to remove the procurement from the disciplines in the WTO Agreement on Government Procurement and the Framework Agreement was not justified in this case.

As a result of persistent U.S. Government intervention, the Government of Japan has cancelled its plans to develop a next generation mobile radio communications system. The NPA has determined that it can meet its objectives of ensuring the security of its police communications while allowing broad participation of suppliers by adopting a new approach for the development of this system. Under this new approach, the NPA plans to conduct the procurement of this system in accordance with the WTO Agreement on Government Procurement and the Framework Agreement, with the exception of the encryption module. The Japanese Government has also informed the U.S. Government that the technical specifications to be used in this new approach will not provide an unfair competitive advantage to the companies that participated in the canceled program.

The United States will monitor the implementation of the new approach to ensure that all interested foreign firms are provided with full and fair procurement opportunities and are not unfairly disadvantaged vis-a-vis the companies that developed the specifications for the procurement that was canceled. The United States will consult with the Japanese Government as necessary as the new approach unfolds.

NTT Procurement Agreement and Other Issues Relating to the 1994 U.S.-Japan Framework Agreement on Japanese Public Sector Telecommunications Procurement.

The United States raised several concerns during the October 1996 review of the NTT procurement agreement based upon NTT's continued use of non-transparent and

discriminatory criteria to determine the share of procurement to be awarded among NTT suppliers. It appears that NTT continues to rely excessively on NTT-specific product-based specifications and has not moved sufficiently to comparable international performance-based specifications. It also appears that NTT excessively employs single tendering and follow-on procurement procedures which disadvantage non incumbent firms. The United States will seek to address these issues in consultations called for under the agreement.

With regard to the Framework Agreement, the United States is concerned about statistical analysis indicating a disparity between the value of telecommunications procurements conducted under the Framework Agreement and the total value of Japanese Government telecommunications procurements. The U.S. has asked Japan for a detailed explanation of this situation and will pursue these issues in consultations called for under the Framework Agreement.

Korea. The Administration has expressed serious concerns that the Korean government continues to play an active and discriminatory role in the telecommunications sector in Korea. USTR will continue to monitor the troubling pattern of Korean government practices which limit the purchase of foreign telecommunications equipment and services in the Korean market.

Reflecting these concerns, as well as the fact that a number of important issues are not covered by existing telecommunications agreements with Korea, Ambassador Barshefsky on July 26, 1996 designated Korea a "Priority Foreign Country" (PFC) under Section 1374 of the 1988 Act. Under this Act, the United States has a one-year period in which to reach a resolution which addresses U.S. objectives, after which trade sanctions may be imposed. Bilateral negotiations on this matter are ongoing.

Taiwan. In July 1996, the American Institute in Taiwan concluded with their Taiwanese counterparts an agreement on the licensing and provision of wireless services through the establishment of a competitive, transparent and fair wireless market in Taiwan. The Directorate General of Telecommunications (DGT) agreed that interconnection agreements between wireless operators and Chunghwa Telecommunications Co. would be cost-based, transparent, unbundled and non-discriminatory and the terms of such agreements publicly available. The United States will monitor the implementation of these wireless licences to ensure it conforms to the agreement.